HOME BUYER EDUCATION HANDBOOK

USDA

RURAL DEVELOPMENT

CREATING NEW OPPORTUNITIES FOR NEW JERSEY AND RURAL AMERICA

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Home Buyer Educational Program

INTRODUCTION

Purchasing a home is probably one of the largest investments that you will ever make. Rural Development would like to congratulate you in taking this first and important step in becoming an educated home buyer. The purpose of this course is to help you avoid making an expensive mistake that could affect your credit for years to come. The advantages and disadvantages of home ownership will be discussed in detail. After this course is completed, it is hoped that you will make an educated decision if the responsibilities of owning a home are for you or if you should continue to rent until such time that you realistically are able to own a home.

Planning for Home Ownership

Before you begin preparing for the home buying process, you need to decide if you and your family are ready to buy. You must honestly answer several questions to determine if home ownership is right for you. In the following section, information will be provided that will give you some advantages and disadvantages of owning a home, what some of your responsibilities will be and the financial comparison between renting and homeownership.

Advantages of Home ownership

1. The pride of Home ownership: Your home is your castle. You can decorate it as you wish without the consent of your landlord. It can allow you to settle down and become part of your community and have a say in local politics to make a difference in the area you live in.

2. Investment opportunity: Over time, homes generally increase in value. In essence, when you make your mortgage payments (on time), you are reducing the principal balance owed on the home gaining equity. This is almost like a scheduled savings plan. Equity is the difference between the value of your home and the amount you owe on the loan. Therefore, if your home were to increase in value while at the same time you reduce the loan amount, your investment is gaining in value. If your home is properly maintained, it will almost always sell for more than you purchased it for.

3. Stable housing costs: While rental payments typically increase from lease period to lease period, mortgage payment (the principal and interest portion) usually remains constant. However, if you have a loan that is being subsidized, your payment amounts will vary based upon your income but will never exceed the rate that is on your promissory note.

4. Tax benefits: Many homeowners enjoy significant tax breaks that are not available to renters. For example, the interest paid on a home mortgage, as well as real estate taxes, may be deductible which in turn can reduce the income taxes owed.

As you can see, owning a home can offer several advantages: however, owning is not for everyone. In addition to these advantages, owning a home will bring with it, additional long-term costs and responsibilities.

Drawbacks of Home Ownership

1. Increase in monthly housing costs: Typically, a homeowner will be paying more than a renter because in addition to the mortgage payment, there may be additional costs as follows:

- Utilities
- Maintenance
- Possible Association Fees
- Decorating

2. Decrease in your mobility: A renter will more easily be able to change residencies with little or no difficulty. Owning a home however, will make moving more restrictive. For example, if you recently bought a home and had a minimal principal reduction you may lose money if you sell soon. Remember there are costs associated with the sale of your home, such as Realtor's fees, and if you have not built up equity, you will lose money. While in the planning process, you must plan to keep your home for several years before attempting to sell. Your mobility will also be restricted in relation to the amount of repairs and maintenance that will need to be done to your home. Remember, the larger and older the dwelling, the more you will need to devote time for repairs and maintenance. Even your yard work will be time-consuming.

3. Repairs and Maintenance: You will need to determine if you are able to maintain and do repairs that will inevitably crop up from time to time. (Especially when they happen during gift giving times, planned vacation times etc.). When renting, a repair or maintenance issue can be taken care of by a call to the landlord. This issue can be a factor in determining the size, age and condition of the homes that are desirable to you. It can also help determine how large of a site you would want and how far off the road you would like to be. Remember that buying a home is like buying a car. Repairs and maintenance will be minimal on a newer car. However, when purchasing an older car, there may be hidden items that need to be repaired.

4 Possibility of foreclosure: Foreclosure is the sale of a mortgaged property by the lender if the borrower defaults on the loan. The most common default is when a borrower fails to pay as agreed.

Comparison between renting and owning

RENTING	OWNING
lower monthly payment	higher monthly payment
rent amount subject to increase	mortgage payment typically constant
no investment	investment with tax advantages
high mobility	low mobility
low maintenance costs	high maintenance costs
no sense of ownership	high sense of ownership
no chance of foreclosure	risk of foreclosure
possibility of eviction	possibility of eviction

Responsibilities of Home Ownership

Prior to purchasing a home, you need to be aware of and agree to assume new responsibilities. These responsibilities will serve to protect your investment and to meet your new financial obligations. When you sign the loan documents, you will not only be involved in a long term mortgage, but will also be agreeing to many conditions relating to the repayment of the loan and maintenance of the property.

Pay back the loan: You will be required to make monthly payments when due and in full each month. Even though there may be a grace period of a given number of days, it does not mean that your due date is extended. The grace period is only to allow for uncontrollable events that may occur between the date you mail your payment and the due date. Remember that your payment is expected by the due date. If you do not make your monthly payment as agreed, you may:

- lose your home;
- lose any money that you may have put into your home
- lose your credit rating and the ability to be approved for future credit.

Maintain sufficient hazard insurance and keep taxes current: Both insurance and tax payments will be added to your monthly mortgage payment. This is called an escrow. It will be the lenders responsibility to pay these when due. However, if your payments ever fall behind, and there are not enough funds to pay taxes or insurance, the lender will protect it's interest and make a protective advance against your account to insure that they are paid. Since this action will put you in default of your mortgage, it is your responsibility to pay your mortgage, including the escrow, when it is due. As you are probably aware, both taxes and hazard insurance premiums tend to increase annually. For this reason, the lender will do what is called an Escrow Analysis each year and adjust what your escrow payment will be. This will in all likelihood increase your gross payment to the lender.

Maintain the Property: As a homeowner, you agree to keep the property in good condition. Your home is a major investment, and you are responsible for maintenance, repairs and routine upkeep. A realistic budget may help in assisting you with covenant.

Are you ready to buy a home?

Do you have a steady job and/or income history?:

Rural Development, as is the case with most other lenders, needs to be assured that your source of income is both stable and dependable. This does not necessarily mean that you must have held the same job for a period of time. In fact, sometimes job moves are looked at favorably if it results in more pay or a better opportunity to advance. At the same time, if someone has a court order for child support, but cannot document that it is being received regularly, then that may not be considered dependable. This is also true for the person receiving support for a child who will soon be of age and not a source for support. This could not then be counted as income. Other items that would cause concern are unexplained gaps in employment, being employed on a probationary period and on active duty in the armed forces.

If you are able to answer "yes" to the above question and can provide all the necessary documentation then a lender can look more favorably at your application.
If you answered "no" or are unsure then you may want to delay in applying for a mortgage loan.

Do you have a favorable credit history?

Prior to a lender making a long term commitment to an applicant, they would want to see a track record that you have the ability and willingness to meet your debt obligations when due. An "infile" credit report will be ran on all applicants when they initially apply to Rural Development. This will give us an idea as to where you stand and if you "appear" to meet our guidelines. Later in this course, we will explore this issue further. It is also a good idea to contact one of the major Credit Reporting Agencies and request a report on you. They can be found in the Yellow pages and they may even be at no cost. Many people have no established credit show up on a credit report. You can still establish a history by documenting your past rent payments, and utility company payments. However, explicit documentation will be required.

If you can say that you in fact have a good credit history verified through a credit bureau or non-traditionally through utility companies or rental payments, then you may be one step closer to owning your own home.

However, if you cannot provide the proper documentation that you have a good credit history then this may not be the best time to apply for a mortgage loan. Your priority should be to either clean up any blemishes you may have or to establish a satisfactory history.

Do you have enough cash on hand to cover closing costs?

When you apply for a mortgage loan, you will receive an estimate of closing costs. This is only a good faith estimate. These costs can be absorbed from many sources. For instance, you may have the cash on hand or you may be getting a gift from someone. There may also be concessions that the seller of the property is willing to contribute towards the closing costs. Some Counties and Municipalities even have a grant program for 1st time homebuyers. In any case, documentation will be required to show the lender that you can close the loan if approved.

If you have sufficient assets to close a loan then your in a good position to apply for assistance. If you do not have the resources to close a loan then it would be a good idea to begin a savings plan.

Can you afford the monthly mortgage payments for the house you want?

Generally, the amount of your monthly mortgage payment, taxes and insurance for a Very Low Income applicant is limited to 29.00% of their gross monthly income.(For a low income applicant the figure is increased to 33.00%). Additionally, your total monthly debt payment cannot exceed 41.00% of you gross income. By staying within these guidelines, you can get a certain range of monthly mortgage payments that you can afford. It will be discussed later in this manual how to determine what your payment will be, based on a dollar loan amount.

Budgeting

Once you have decided that you would be a good candidate for home ownership, then the next step is to determine just how much of a house you can afford. Budgeting is one of the easiest aspects of financial management, but very few people take the time and effort to build and keep on building a personal budget. All major business' have a budget to work from so why shouldn't you? In the home buying process, there are three major reasons why a budget is critical.

A realistic budget can:

1. Help you determine how much of a house you can afford.
2. Help you determine if you can afford the extra expenses related to home ownership.
3. Help you plan to save money for a down payment, closing costs or for the future.

Step to complete a budget:

Identify all your sources of income.
Identify and track your expenses.
Complete the budget in writing.

Income

A. **Annual Income**. The gross amount, before any payroll deductions, of wages and salaries, overtime pay, commissions, fees, tips, bonuses, and other compensation for personal services of all adult members of the household. If a cost of living allowance or a proposed increase in income has been estimated to take place on or before loan approval, loan closing, or the effective date of the payment assistance agreement, it will be included as income. For annual income count only the first $480 of earned income from adult full-time students who are not the head or spouse.

(1) The net income from the operation of a farm, business, or profession. The following provisions apply:

(i) Expenditures for business or farm expansion, capital improvements, or payments of principal on capital indebtedness shall not be used as deductions in determining income. A deduction is allowed in the manner prescribed by Internal Revenue Service (IRS) regulations only for interest paid in amortizing capital indebtedness.

(ii) Farm and nonfarm business losses are considered "0" in determining annual income.

(iii) A deduction, based on straight line depreciation, is allowed in the manner prescribed by IRS regulations for the exhaustion, wear and tear, and obsolescence of depreciable property used in the operation of a trade, farm, or business by a member of the household. The deduction must be based on an itemized schedule showing the amount of straight line depreciation.

(iv) Any withdrawal of cash or assets from the operation of a farm, business, or profession will be included in income, except to the extent the withdrawal is for reimbursement of cash or assets invested in the operation by a member of the household.

(v) A deduction is allowed for verified business expenses, such as lodging, meals, and fuel, for business trips made by salaried employees, such as long-distance truck drivers, who must meet these expenses without reimbursement.

(vi) For home-based operations such as child care, product sales, and the production of crafts, housing related expenses for the property being financed such as mortgage interest, real estate taxes, and insurance, which may be claimed as business expense deductions for income tax purposes, will not be deducted from annual income.

(2) Interest, dividends, and other net income of any kind from real or personal property, including:

(i) The share received by adult members of the household from income distributed from a trust fund.

(ii) Any withdrawal of cash or assets from an investment except to the extent the withdrawal is reimbursement of cash or assets invested by a member of the household.

(iii) Where the household has net family assets in excess of $5,000, the greater of the actual income derived from all net family assets or a percentage of the value of such assets based on the current passbook savings rate, as determined by the Agency.

(3) The full amount of periodic payments received from Social Security (including Social Security received by adults on behalf of minors or by minors intended for their own support), annuities, insurance policies, retirement funds, pensions, disability or death benefits, and other similar types of periodic receipts. However, deferred periodic amounts from supplemental income and social security benefits that are received in a lump sum amount or in prospective monthly amounts are not counted.

(4) Payments in lieu of earnings, such as unemployment and disability compensation, worker's compensation, and severance pay.

(5) Public assistance except as indicated in Part II (15) of this attachment.

(6) Periodic allowances, such as:

(i) Alimony and child support awarded in a divorce decree or separation agreement, unless the applicant certifies the payments are not received, and the applicant provides documentation to the Agency that a reasonable effort has been made to collect the payments through the official entity responsible for enforcing such payments; or

(ii) Recurring monetary gifts or contributions from an organization or person who is not a member of the household.

(7) All regular pay, special pay (except for persons exposed to hostile fire), and allowances of a member of the armed forces who is the applicant or spouse, whether or not that family member lives in the home.

SOURCES OF INCOME EXCLUDED FROM ANNUAL INCOME

The following sources are never considered when calculating annual income.

(1) Income from the employment of persons under 18 years of age, except parties to the note and their spouses.
(2) Income of live-in aides and income directly received by foster children or foster adults.
(3) Payments received for the care of foster children or foster adults (usually individuals with disabilities, unrelated to the applicant, who are unable to live alone).
(4) Temporary, nonrecurring, or sporadic income (including gifts).
(5) Lump-sum additions to family assets such as inheritances, capital gains, insurance payments included under health, accident, hazard, or worker's compensation policies, and settlements for personal or property losses.
(6) Amounts that are granted specifically for, or in reimbursement of, the cost of medical expenses.
(7) Earnings in excess of $480 for each full-time student 18 years old or older, except parties to the note and their spouses.
(8) Reparation payments paid by a foreign government arising out of the Holocaust. If any applicant or an Agency loan was deemed ineligible because the applicant's income exceeded the low-income limit because of the applicant's Nazi persecution benefits, the Approval Official Loan should notify the applicant to reapply for a loan.
(9) Any earned income tax credit.
(10) Adoption assistance payments in excess of $480 per adopted child.
(11) Deferred periodic payments of supplemental security income and Social Security benefits that
are received in a lump sum.
(12) The amount of student financial assistance received by household members.
(13) Amounts received by the family in the form of refunds or rebates under State or local law for property taxes paid on the dwelling unit.
(14) Amounts paid by a state agency to a family with a developmentally disabled family member living at home to offset the cost of services and equipment needed to keep the developmentally disabled family member at home.

(15) Any other revenue which a federal statute exempts shall not be considered income or used as a basis for determining eligibility for an agency loan, payment assistance, or denying or reducing federal financial assistance or benefits to which the recipient would otherwise be entitled. Additional financial assistance which is considered exempt income under federal statutes includes:

(i) The imminent danger duty pay to a service person applicant or spouse away from home and exposed to hostile fire. Amounts of imminent danger pay for military personnel stationed in the Combat Zone are excluded from annual income effective August 2, 1990. Any military pay received by persons serving in the Combat Zone received on or after January 17, 1991, is excluded from annual income. The Combat Zone, as defined by the Presidential Executive Order 12744 dated January 21, 1991, consists of the Persian Gulf, the Red Sea, the Gulf of Oman, that portion of the Arabian Sea that lies north of 10 degrees north latitude and west of 68 degrees east longitude, the Gulf of Aden, the total land areas of Iraq, Kuwait, Saudi Arabia, Oman, Bahrain, Qatar, and the United Arab Emirates. Immediately upon notification by the family, or based on information from a knowledgeable source that a member of the household was serving, in the Combat Zone, the Loan Approval Official shall redetermine the household income retroactive to January 17, 1991, and adjust the applicant's payment assistance accordingly.

(ii) Payments to volunteers under the Domestic Volunteer Service Act of 1973, including, but not limited to:

(a) National Volunteer Antipoverty Programs which include Volunteers In Service To America (VISTA), Peace Corps, Service Learning Programs, and Special Volunteer Programs.

(b) National Older American Volunteer Programs for persons age 60 and over which include Retired Senior Volunteer Programs, Foster Grandparent Program, Older American Community Services Program, and National Volunteer Programs to Assist Small Business and Promote Volunteer Service to Persons with Business Experience, Service Corps of Retired Executives (SCORE), and Active Corps of Executives (ACE).

(iii) Payments received after January 1, 1989, from the Agent Orange Settlement Fund or any other fund established pursuant to the settlement in the "In Re Agent Orange" product liability litigations, M.D.L. No. 381 (E.D.N.Y.).

(iv) Payments received under the "Alaska Native Claims Settlement Act" or the "Maine Indian Claims Settlement Act."

(v) Income derived from certain submarginal land of the United States that is held in trust for certain American Indian tribes.

(vi) Payments or allowances made under the Department of Health and Human Services Low-Income Home Energy Assistance Program.

(vii) Payments received from the Job Training Partnership Act.

(viii) Income derived from the disposition of funds of the Grand River Band of Ottawa Indians.

(ix) The first $2,000 of per capita shares received from judgment funds awarded by the Indian Claims Commission or the Court of Claims, or from funds held in trust for an American Indian tribe by the Secretary of Interior.
(x) Payments received from programs funded under Title V of the Older Americans Act of 1965.
(xi) The value of the allotment provided to an eligible household under the Food Stamp Act of 1977.
(xii) Any other income which is exempted under Federal statute.

B. **Repayment Income** is the annual income from all sources that are expected to be received by those household members who are parties to the promissory note.

The following sources are never considered when calculating repayment income.

(1) Income from the employment of persons under 18 years of age, except parties to the note and their spouses.
(2) Income of live-in aides and income directly received by foster children or foster adults.
(3) Temporary, nonrecurring, or sporadic income (including gifts).
(4) Lump-sum additions to family assets such as inheritances, capital gains, insurance payments included under health, accident, hazard, or worker's compensation policies, and settlements for personal or property losses.
(5) Amounts that are granted specifically for, or in reimbursement of, the cost of medical expenses.

C. **Adjusted income** is used to determine program eligibility and the amount of payment subsidy for which the household qualifies for. Adjusted income is annual income as described above less any of the following deductions for which the household is eligible.

(1) For each family member, except the head of household or spouse, who is under 18 years of age, 18 years of age or older with a disability, or a full-time student, the amount determined pursuant to section 501(b)(5) of the Housing Act of 1949, as amended.

(2) A deduction of reasonable expenses for the care of minor 12 years of age or under that:

(i) enable a family member to work or to further a member's education,

(ii) are not reimbursed or paid by another source, and

(iii) in the case of expenses to enable a family member to work do not

exceed the amount of income earned by the family member enabled to work

(3) Expenses related to the care of household members with disabilities that:

(i) enable a family member to work,

(ii) are not reimbursed from insurance or another source, and

(iii) are in excess of three percent of the household's annual income.

(4) For any elderly family, a deduction in the amount determined pursuant to section 501(b)(5) of the Housing Act of 1949, as amended.

(5) For elderly households only, a deduction for household medical expenses that are not reimbursed from insurance or another source and which in combination with any expenses related to the care of household members with disabilities described in paragraph (c)(3) of this section, are in excess of three percent of the household's annual income.

Income, for the purpose of Rural Development, is projected for the next 12 month period unless there is verifiable evidence that a likely change in circumstances or historical information does not support the current projected income. For instance, if an applicant normally has worked overtime in the winter months and the income was verified in the summer, historical overtime figures will be used. This is also the case for someone who is seasonally employed. If that person earned say $6,000 working for a summer only job, that figure will be used unless documentation to support another figure is supplied.

EXPENSES

1. Fixed expenses - These are expenses that are a relatively constant part of your budget. Some of these expenses like your rent, mortgage, childcare, installment loans or car payment will remain the same from month to month. Others, such as your telephone, utilities or credit cards may change from month to month. When completing a budget, for expenses that do not remain constant, you will have to figure an average monthly expense and enter that amount on the budget.

2. Flexible expenses - These are expenses where the amount will vary from month to month. The important thing to remember about these expenses is that they are directly under your control. If an applicant does not show repayment ability for a particular loan amount, then this is the only area where you can make an adjustment. Examples of these expenses are groceries, dining out, charities, personal items, vacation, recreation, tuition, gifts, gasoline, clothing, organization dues, and babysitting. A good budget will have "savings" listed as a flexible expense.

3. Periodic Expenses - These are expenses that you will only incur once or twice a year. They can include vehicle insurance, life insurance, property maintenance, taxes and possibly car maintenance. This is why a savings category in your flexible expenses is necessary; to allow for payment of periodic expenses while minimizing the payment shock that these expenses may cause.

How will a new home affect my budget?

Projected expenses will include items that your previous landlord may have paid for. They will include things like maintenance of both the interior and exterior, purchasing appliances like a washer and dryer (will it be cash or credit, and if credit, how will if effect your repayment ability?), and decorating (i.e. curtains, painting or papering the walls etc.). Remember that you only have “X” amount of monthly income coming in and additional costs incurred by buying a home, so unless you are presently saving on a monthly basis, you will need to decide whether you are willing to adjust your standard of living by reviewing what flexible expenses you can change. This is a decision that only you can make. The only other alternative is to increase your family income to a point where the additional costs of owning a home can met.

Helpful Suggestions for Budgeting

There have been numerous studies done over time by Financial Planning Experts and they have developed the following estimates for certain living expenses. Many people have no idea as to what their own living expenses are. If you are one of these people, the following will give you a starting point to develop a budget:

Category	% of total Net Income
Food	12-14%
Clothing	5%
Housing	20-25%
Household Maintenance & Utilities	11%
Installment Debt	< 20%
Transportation	16%
Education & Child Care	4-5%
Health Care	5%
Savings	10-15%
Recreation	4-6%

HOUSEHOLD BUDGET

FIXED EXPENSES	**NOW**	**w/HOUSE**
Rent/Mortgage	________	________
Gas/Oil/Electric	________	________
Water/Sewer	________	________
Telephone (basic)	________	________
Telephone (cellular)	________	________
Trash Pickup	________	________
Cable	________	________
Car/Truck Payment	________	________
Support/Alimony	________	________
Medical Insurance	________	________
Installment Loans	________	________
Child Care	________	________
Credit Card Payments	________	________
Other	________	________
	________	________
TOTAL (A)	________	________

FLEXIBLE EXPENSES		
Savings	________	________
Groceries	________	________
Lunch(work/school)	________	________
Eating out	________	________
Entertainment	________	________
Hobbies	________	________
Laundry/Dry Cleaning	________	________
Clothing	________	________
Gasoline	________	________
Newspapers/Magazines	________	________
Pager	________	________
Alcohol/Cigarettes	________	________
Lottery/Bingo/Casino	________	________
Ride Share	________	________
baby-sitting	________	________
Church/Charity	________	________
Tui-tion/Books	________	________
Beauty/Barber Shop	________	________
Doctor/Dentist	________	________
Animal Care/feed/Vet	________	________
Parking/Tolls	________	________
Public Transportation	________	________
Other	________	________
	__	________
TOTAL (B)	________	________

PERIODIC EXPENSES (Yearly Cost /12= Monthly Cost	**NOW**	**w/HOUSE**
Auto Insurance	________	________
Life Insurance	________	________
Auto Maintenance	________	________
Auto Fees/License	________	________
House Maintenance	________	________
Vacations	________	________
Holidays/Birthdays	________	________
Other	________	________
	________	________
TOTAL (C)	________	________

EXPENSES		
Fixed(A)	________	________
Flexible(B)	________	________
Periodic(C)	________	________
TOTAL(E)	________	________

NET MONTHLY INCOME		
Source1	________	________
Source2	________	________
Source3	________	________
TOTAL(D)	________	________

Subtract Expenses from Income

	INCOME(D)	________
(minus)	**EXPENSES(E)**	________
	DIFFERENCE+/-	________

If you've accounted for all your expenses, including savings, your difference should be $0.00

If you came up with a positive number, put the difference toward your bills , or in savings.

If you came up with a negative difference, you need to go back and trim your expenses because you can't spend more that you make.

Pre Qualification

Normally, when a lender pre-qualifies someone for a loan, the information used has not been verified. This is why the results of a pre qualification should <u>never</u> be looked at as a pre-approval. Pre-qualifying an applicant will only tell you that you "appear" to qualify based on the information that you provided. It will also give you an idea as to the amount of loan you can afford, if you qualify for leveraged financing, or if you will have to liquidate any current assets to qualify for Rural Development programs.

The worksheet on the following page can be used to pre-qualify you for this program.

PREQUALIFICATION
INFORMATION

Head of Household Information

Name____ Age_______

Home Phone______________________ Work Phone________________

Wage Income______________________ monthly_______ annual_______

Non Wage Income

Food Stamps _________ AFDC_________ SS/SSI___________

Foster Care________ Public Assistance_____________

Child Support/Alimony_________ Other____________

Household Members

Other Adults	age		Note Signer?	Full-Time Student?
________________________	_____	Income____________	_______	______
________________________	_____	Income____________	_______	______
________________________	_____	Income____________	_______	______

Children:		Full-Time Student?
____	Age_____	______
____	Age_____	______
____	Age_____	______
____	Age_____	______
____	Age_____	______

Assets:

Checking Account: ______________________________

Savings Account: ______________________________

Stocks, bonds, CD's ______________________________

Debts:	monthly	total debt
Car/Truck	_______	________
Car/Truck	_______	________
Installment Loan	_______	________
Installment Loan	_______	________
Creditcard	_______	________
Creditcard	_______	________

Child Care Cost/mo. _____________

Est. property Ins. _____________

Est.rewal estate taxes _____________

Do you have other RHS loans/grants? __________

Applying for a Mortgage Loan

In the appendix, several terms will be found that may be required when you apply for Rural Development services. As previously discussed, information does not have to be verified while pre qualifying you. Now however, when a formal application is being submitted all information is required to be verified.

Due to a application backlogs that may be present in the local offices, a sales contract is not required by Rural Development in order to process an application. Applications are processed by the date they are received. Once an application can be processed, notification will be made to the applicant to get updated information into the office.

The Agency gives processing priority to applicants who have an especially serious need for immediate assistance and for loans that are to the Agency's benefit. Applicants with higher priorities must be processed before those with lower priorities. Applicants who do not qualify for any priority should be processed only when no applications with a priority remain unprocessed. Within each priority category, applications should be processed in the order they were received. The types of priorities are described below:

- First Priority: Subsequent Loans to Correct Health and Safety Hazards

  Current Agency borrowers who request subsequent loans to correct health and safety hazards will be selected for processing first.

- Second Priority: Loans in the Agency's Interest

  Applicants interested in obtaining loans for purposes that are in the Agency's interest, but that do not directly involve removing hazards in a security property, will receive second priority for processing. This would include loans related to the sale of Real Estate Owned (REO) property and loans related to the transfer and assumption of property owned by a program borrower.

- Third Priority: Hardships

  Applicants facing housing-related hardships will receive third priority for processing. Hardship circumstances include living in deficient housing for more than 6 months. Deficient housing is defined as a dwelling that lacks complete plumbing, lacks adequate heating, is dilapidated or structurally unsound, has an overcrowding situation that will be corrected with loan funds, or is otherwise uninhabitable, unsafe, or poses a health or environmental threat to the occupant or others. Other hardship circumstances include current homeowners in danger of losing a property through foreclosure due to circumstances beyond their control, and other circumstances determined appropriate by the State Director on a case-by-case basis.

- Fourth Priority: Loans that Bring in Additional Resources

  In order to use the Agency's limited resources most effectively, applicants who will obtain part of their funding elsewhere through a leveraging agreement, or who will contribute sweat equity through an Agency-approved Mutual self-help project, will receive fourth priority.

- Fifth Priority: All other applications

As a minimum, the local office will require an application (fully completed), and a signed authorization[RD Form 3550-1 (a separate one for each adult member of the household)]. Additional information that may be requested can include the below items:

1. Recent pay stubs
2. Previous 2 years income tax returns
3. Year to date Profit and Loss Statement and Balance Sheet if you are self employed
4. Award letter form Social Security, AFDC etc.
5. Proof of support income
6. Two months of your current bank statements
7. Gift Letter
8. Credit card statements and or utility bills
9. Landlord verifications (2 year history)

Credit History Evaluation

Rural Development will order 2 different kinds of credit reports on you. The first one is called an "infile" report and is used solely to see what credit whether good or bad is out there. There is no charge for this report but a decision to approve or deny an application cannot be made using this report. It is a helpful tool to use to see what may be out there in your name prior to incurring additional costs. It would be a good idea to get a copy of your credit report prior to applying for a loan. Below are instructions for getting a free copy of your credit report (this is limited to one free report per person per year.):

> Call 1-800-888-4213; Press option #2 and state your name, address. Social Security Number, telephone number and date of birth. A report will be mailed to you within 3-5 business days.

Once an application can be processed, a Residential Mortgage Credit Report will be ordered after your fee is received. This is the report that you credit worthiness will be determined and a decision made. Remember that the history of your past credit use is a good indicator of how you will handle future loan payments. The following pages contain a list of indicators of unacceptable credit indicators.

Indicators of Unacceptable Credit

- No credit history. (Note: A lack of credit history reflected on a credit re port may be mitigated if the applicant can document a willingness to pay debts through submission of a third party verification, copies of canceled checks, or other acceptable documentation for monthly obligations such as rent, utility, phone or doctor bills, or other recurring debt payments.)
- Incidents of more than 2 debt payments more than 30 days late within the last 12 months.
- A foreclosure that has been completed within the last 36 months.
- An outstanding Internal Revenue Service (IRS) tax lien or any other outstanding tax liens with no satisfactory arrangement for payment.
- Two or more rent payments paid 30 or more days late within the last 2 years. If the applicant has experienced no other credit problems in the past 2 years, only 1 year of rent history will be evaluated. This requirement may be waived if the program loan will reduce shelter costs significantly and contribute to an improved repayment ability.
- Outstanding collection accounts with a record of irregular payments with no satisfactory arrangements for repayment, or collection accounts that were paid in full within the last 6 months, unless the applicant had been making regular payments previously.
- Non-Agency debts written off within the last 36 months, unless the debt was paid in full at least 12 months ago.
- Agency debts that were debt settled within the past 36 months, or are being considered or debt settlement.
- Delinquency on a federal debt.
- A court-created or court-affirmed obligation or judgment caused by nonpayment that is currently outstanding or has been outstanding within the last 12 months, except:

  A bankruptcy in which:

  1. Debts were discharged more than 36 months prior to the date of application; or

  2. Where an applicant successfully completed a bankruptcy debt restructuring plan and has demonstrated a willingness to meet obligations when due for the 12 months prior to the date of application.

- A judgment satisfied more than 12 months before the date of application.
- An applicant with an outstanding judgment obtained by the United States in a Federal court, other than the United States Tax Court, is not eligible for a Section 502 loan. This requirement is statutory and cannot be waived.

What are the closing costs that will be involved

Prior to approving a loan, a lender must have documentation that you have sufficient funds to take the loan to closing. When you buy a home, you will be paying significantly more than the purchase price. Below are some costs that you may have to consider:

- **Down Payment** - Although a down payment is not required as Rural Development can finance 100% of the value of the dwelling, you may find it necessary to put something down. This could be because your assets may have to be liquidated to be eligible or you may need to reduce the loan amount to reach the qualifying ratios.

- **Credit report fee -** Prior to RHS making a decision on an application, you will be requested to submit a fee so we can order a residential Mortgage Credit Report.

- **Establish an Escrow Account -** This is an account that is set up to pay your property insurance and real estate taxes. RHS requires that the balance of this account never drop below a 2 month cushion. Added to your monthly mortgage payment will be 1/12 of your annual insurance and tax amounts. Prior to closing, the office handling your application will issue to you an initial escrow disclosure statement. This will show you how much you will need to establish this account.

- **Closing Costs -** Although it is impossible to say exactly how much is needed for closing, you will be forwarded an estimate of closing costs after application is made. This is only an estimate, but should give you an idea of these costs. Some of the most common types of closing costs that you will probably see are as follows:
    - *recording fees*- to record the purchase documents and make the changes in the tax billing.
    - *pro-rated share of taxes*- this fairly divides the real estate taxes between the seller an the buyer as of the date of settlement.
    - *title search*- this is required by the lender and provides verification that there are no legal claims against the property and to ensure that the seller is the legal owner of the property.

- *lenders title insurance*- This insurance provides protection to the lenders investment in the property if any problem should arise after closing.
- *document preparation fees*- this is paid to cover the costs associated with preparing the mortgage or any other form(s) necessary for closing.
- *Homeowner's Insurance* - in addition to establishing an escrow, you will be required to have proof that you paid for a full years insurance.
- *Survey* - a survey is a requirement of closing and the person who performed the survey must be paid.
- *Inspection Service* - If you chose to use one of these services, they must be paid for services rendered.
- *Appraisal fee* - RHS has a contractual relationship with a certified appraiser. This cost is past on to the borrower at closing. If the loan does not close, then the applicant does not pay for the appraisal.
- *Tax service fee* - this is a one time fee paid to a contractor to monitor your real estate taxes.
- *Settlement fee* - Paid to the Title Company or attorney for use of their space to close the loan.

Selecting the community or location that fits your life

By now, you should have an idea as to how much you really think you can afford. Now, whether you're buying an existing home or want one built, you will need to choose a location. Remember that selecting a location is probably one of the most important decisions you can make. It's not like you will be able to exchange it later if it doesn't "fit". You will be stuck with it until enough equity is built up so you can sell it without loosing anything. Below are several factors to consider well before committing to any given area:

1. Does the area you've chosen have homes located within it's boundaries that fall within your *price range*?
2. *Property taxes* vary from township to township making a direct correlation in your repayment ratios. Tax rates are public information as are the amount of real estate taxes on a particular parcel. Your Realtor can provide you with this information. Remember however, that if your are purchasing a lot, taxes are assessed on only that lot and once an improvement is made to it then the tax amount will increase.
3. *Environmental Concerns*: You need to determine whether the house is in an environmentally safe area. Drive around the neighborhood and explore the area. Look for such hazardous waste sources such as dumps, salvage yards, industrial sites etc. Does the area have public water and or sewer or are private systems on site? Is the area in a special flood hazard area? (RHS requires that if so, then the 1st floor elevation must be higher than the elevation of the 100 year flood zone level. Is there an under ground oil tank? The current owner or Realtor may be able to help you with this.
   You also need to be aware that homes in flood zones will be required to have flood insurance which in turn will effect your ratios.
4. *Proximity to Facilities and Services* - When you relocate to a new area, you will inevitably have different distances that you must travel to new services and facilities. For instance, will you be traveling further to your place of employment? Other things to consider may be where the schools are located and are busing, day care services, medical facilities, shopping, fire and police protection available. You must determine if your lifestyle will require that any of these services be nearby.

5. *Transportation* - Is it necessary for you to be close to some form of public transportation? If so you will also need to know their schedules ahead of time. Having access to a dependable car will give you some flexibility here.
6. *Character*: Does the neighborhood have the character that gives it the qualities that you are comfortable with? The three elements of a neighborhood's character can be described as follows:
   - Physical Appearance: When shopping for a home, compare the different neighborhoods you are in. You should be looking at such things as the appearance and condition of nearby homes, streets, yards and sidewalks. A clean, well cared for appearance probably indicates that the people who live here take pride in their homes and neighborhood. A run - down overall appearance may indicate the opposite. This appearance affects the property values in a neighborhood.
   - Economic Outlook: This is an important consideration to look at. A decline in the economic trend will affect the resale of your home. Look for signs such as a high number of vacant or neglected homes/lots, a high crime rate or the number of months a home takes to be sold. All of these things may indicate problems.
   - Social Environment: Consideration must be given to you and your family as to what best suits your lifestyle. Some neighborhoods may offer a lot of social interaction while others are more secluded and offer a lot of privacy. A good source of information can be gained here just by exploring the neighborhood again or even knocking on prospective neighbors doors and ask them questions.

7. *Utility/ Energy concerns*: Find out if the property is serviced by public water and sewer or if there is a private well and septic. Although either case is acceptable, find out if there have been past problems. Will the tank be pumped out prior to settlement? If presently using a private system, will public systems be coming in the near future. If so, it is likely that hookup will be mandatory and the cost can be substantial.

Overall, shopping for a home is like anything else requiring a substantial amount of money. Do your homework, look for the best deal and never feel like you must take the first home that comes along.

Where to look for a House

Before a person chooses a home, one will have to be found. There are several areas that you can look to find homes listed for sale. Probably the most used way to find a home is through a Realtor. They have access to what is called a Multiple Listing Service (MLS). If you give them an area, a price range and any other limiting factor, they in turn can pull up homes listed through their computer that will meet your needs. Rural Development may have properties in Inventory (REO- Real Estate Owned) that we can finance. This method will limit you to the area the home is located in and the home style but it will not hurt to see what's out there. There are also numerous free publications dealing strictly with selling homes and even newspapers that can assist you. Also, sometimes existing owners will try to market their own home without the help of a Realtor. The most recent innovation to find homes is by using the internet if you have access.

Finding the right home will involve striking a balance between your wish list and the reality of what's out there in the area that your looking at. Several more choices will have to be made during the process of selecting a house.

Selecting the type of house

A home can be either a newly constructed dwelling or an existing structure. If new, it can be built on site by a contractor, or it can be a manufactured home built at a factory and then shipped to the site. You may choose an attached home such as a condominium or townhouse. No matter what type of home would best suit your needs, there are advantages and disadvantages to them all. Remember, the choice should be entirely yours. Below are lists of some of these advantages/disadvantages for each type of home that you should consider:

A. New Construction

1. *Advantages*
    - Maintenance Costs are typically lower for newly built homes because all the operation systems (e.g. the plumbing & heating systems) are new and should not require repair or replacement.
    - Modern design - Newer homes offer the benefits of more modern construction technology. The latest in home design, room layout and construction methods are used.
    - Energy efficiency - Newer homes are built using the latest, energy efficient furnaces, insulated windows and insulation.
    - Home Owners Warranty - the State of New Jersey, department of Community Affairs, requires that all newly built dwellings come with a warranty. This may warrant some items for up to 15 years. This warranty only covers items related to the structure and may be transferred to another buyer down the road. Certain items such as the range and hot water heater will be covered by the manufacturer.
    - More Choices - You may have a choice in picking out colors of carpets, style of fixtures etc. since the home will be under construction.

2. *Disadvantages*

- Location - If you choose to have a home built for you, then you have really limited the areas that may be available. Eligible sites are getting harder to find. This could mean that your commuting time to and from work may be longer.
- Cost - the cost for a new home is almost always higher than an existing home containing similar amenities.
- Impact fees - Many new sub-divisions now have an "Association" that takes on many responsibilities such as trash removal, maintaining common grounds etc. This will add to the costs of the home in the form of monthly dues. This will also effect the ratios used for loan approval.
- Curb Appeal - Although everything is new, including the landscaping, it is so new that it will look "bare" as compared to established sub-divisions or existing homes. Believe it or not, trees and grass add value and appeal to a dwelling.
- Time involved - not only will you have to find a site, but you will also need a builder and become contractually linked to him for several months. Remember that the contract that the government will require will be between you and the builder. RHS is not a party to the contract. The whole aspect of having a home built will add another hurtle to the process of home ownership.

B. Existing Homes

1. *Advantages*

- Are usually less expensive as compared to new homes of similar style and design.
- There will usually be more of a choice of homes in an area that meets your needs. Therefore, you may have a shorter commute to work or other facilities that you feel are important
- Landscaping - Since an existing home has been there for a while, the landscaping should be more established and therefore appealing.

2. *Disadvantages*

- Maintenance for existing homes will almost always require more maintenance and repairs. Even though you may be able to get a certification for a particular item, this is not a guarantee that the item will work the next day. If a major renovation will be required by Rural Development, then it must be done prior to settlement. This is why a realistic budget will be necessary to maintain.
- Inspections - As previously noted, a new home is covered by a warranty. However, buying an existing home is not. Your best protection then, may be by a thorough home inspection company. Using one of these services, a home inspector will perform an evaluation of the house and provide you with an itemized list of his/her findings. This does not take the place of getting certifications for the lender. A home inspection service is strictly for the buyers ease of mind.
- Certifications on the other hand are for lender purposes only. These may vary from lender to lender but the person giving the certification must be qualified to do so.
- Warranties - For the most part, existing homes are sold with no warranty. If the home is not too old, there may be a warranty that can be transferred to a new owner. There may also be a warranty offered by the Realtor to help encourage a sale.
- Energy Efficiency - Although Rural Development will require a certification on the thermal standards, the chances of older homes meeting RD's standards may be slim. It may have to be brought up to standards: however, if there is no insulation in the walls the home may be determined ineligible.

Certifications required by the lender

Rural Development will require specific certifications for any existing dwelling that is to be financed. These certifications are ONLY for the Governments use and are NOT to be used as an assurance by the borrower that the dwelling is guaranteed in any way. Certification requirements may vary from lender to lender, but below are those required by Rural Development along with an example of what an acceptable statement would be:

1. **Electrical certification** - This inspection reveals that this system meets the code enforcement standards applicable to this jurisdiction; that all visible wiring is properly installed and is in good condition and that the service is adequate for the connected load.
2. **Heating certification** - This inspection reveals that the heating system is functioning properly, is consistent with the code enforcement standards applicable and is capable of furnishing adequate heat to all habitable rooms for this dwelling.
3. **Plumbing certification** - This inspection reveals that the plumbing system is functioning properly and is consistent with the building code enforcement standards applicable. The water supply should be capable of delivering a flow of 5 gam for a four hour duration.
4. **Water Certification** - (If a private supply system only) A sample must be tested by a certified laboratory and pass all EPA Standards.
5. **Roof Certification** - Statement must contain that the roof is structurally sound and not leaking. An estimated remaining life expectancy should be addressed.
6. **Pest Certification** - A test for any kind of wood boring insects is necessary. If insects are found then treatment is required. If structural damage is found, it must be repaired.
7. **Thermal Certification** - Statement as to what R-values were found. Rd requires R-30 in the ceilings, R-19 in the walls, and R-19 in the floors.
8. **Septic Certification** - Pumping of tank and a dye test should be the minimum.

The above certifications must be completed and signed by licensed individuals. (e.g. plumber, electrician etc.)

Home Inspection Companies

Remember, the previously mentioned certifications are for the governments use only but must be paid for by either the seller or the buyer. As a buyer, you must consider what you will be comfortable with. Although not required, there are numerous Home Inspection Companies, that can be found in the phone book, that will do complete inspections for buyers. If the company has a licensed engineer or architect that is willing to sign the report and the certification language above is included in the report, Rural Development may accept the report in lieu of individual certifications.

If you choose to use one of the Home Inspection Companies, do not wait until the last minute to find one. Many times a sales contract can only give you a limited number of days to get it done. Therefore, if you know in advance the company you will be using, the inspection can go a lot quicker. The following are some things that you should consider as you interview inspectors:

- Is the inspector a Certified member of the American Society of Home Inspectors? (ASHI)
- How long has the inspector been in business as a Professional Home Inspector?
- Is the inspector experienced in residential inspections?
- Watch out if the company does their own repairs that they also recommended.
- How long does the inspection take(usually 2-3 hrs.) and how much advanced notice will they need?
- How much does it cost?
- What do you get for your money? (written report, recommendations etc.)
- Will the inspector allow you to attend?
- Does the inspector participate in continuing educational inspection courses?

As a minimum, the inspection report should cover the following items:

1. Foundation
2. Roof
3. Plumbing & Electrical Systems
4. Heating & Air Conditioning Systems
5. Doors & Windows
6. Insulation and dwelling structure
7. Ventilation
8. Well (if applicable)
9. Septic (if applicable)

What can I, As a buyer look for?

As an informed potential homebuyer, you need to be knowledgeable of things to look for, that not only effect the value of your home, but will effect your future budget as well. Remember that the certifications that Rural Development will call for only serves to protect the Government's best interest. After you purchase a home, it will be your responsibility to repair and or replace any broken or defective items. Therefore, when being shown a home, the below items should be considered and you should ask yourself if you can afford to replace or repair them as applicable:

- **Roof:** Look at the shingles. Are they buckling (that is, not laying flat)? Are there any missing shingles? Inspect the attic area and look for watermarks on the rafters or sub roof. Has the roof been previously patched? Are there gutters with downspouts and is water being diverted away from the foundation?
- **Foundation:** Look for cracks. A rule of thumb is that if a pencil point can be inserted into the crack, then there may be a structural problem.
- **Lead Based Paint:** Homes built prior to 1978, may contain paint containing lead. This substance has been found to be toxic, especially to young children. There are specific laws that govern the transfer (or rental) of properties containing a known lead based paint hazard.
- **Underground Oil Tanks:** There are serious concerns with lenders financing underground oil tanks. Over time, it is inevitable that a leak will occur. The cost of a clean-up that has contaminated ground water could far exceed the ability of a household to pay for that clean-up.
- **Water problems**: are there signs of water in the basement/crawlspace? Not only does dampness cause rot but it also attracts termites.
- **Plumbing**: Look at all water pipes that are visible. Is there any evidence of leaks or does there appear to be a deposit built up around any of the fittings? Check under all sinks, the toilet and the hot water heater.
- **Termite/Wood boring insect Evidence**: termite damage can come in different forms of tell tale signs. It can be tunnels made of the wood that they already ate or there may be small holes in the wood. On the other hand, carpenter bees will produce holes that a pencil will fit into. Carpenter ants may also pose a problem. Their damage will also look like holes but much smaller than the bees.

- **Windows/Screens & Doors**: Look at all the windows and doors. All windows should have screen without any damages. If the windows or doors are insulated, make sure that there is no "fog" between them as this means that the seal is broken and the insulation quality is lost. If the home has storm windows, make sure that all have screens, are in good repair and operate properly.
- **Is the subfloor in good condition**? : Check all areas where any plumbing passes through the floor. These are the areas most likely to have damage. Look for rotting wood, an unsoundness to the floor or water stains from the underside.

Negotiating a Purchase

After you have looked at several homes, you should have a good idea as to what a fair market price would be. Make an offer that you feel comfortable with, but one that is also realistic. A decent real Estate agent should be able to assist you here. Remember that your offer does not have to equal the asking price. The cost of the house is not the only thing that is open for negotiating. Below is a list of other items commonly found in sales contracts called contingencies. These are conditional events that must occur in order for the buyer and seller to complete the sale.

- The buyers ability to get a specific type, amount and rate of financing.
- The buyers ability to complete the sale of a present home before a certain date.
- The seller's agreement to make certain repairs up to a pre - determined amount.
- The items of personal property which may stay or go including appliances, window coverings or ceiling fans.
- The buyer's ability to get out of a current lease.

Basically, anything that a buyer and seller can agree to can be incorporated into the sales agreement including if the seller will pay for any or all closing costs. However, you must remember that once all parties agree to the terms of the sales agreement, it then becomes a legal contract.

How much will my mortgage payment be?

Most borrowers receiving a loan through Rural Development will be subsidized through what is called payment assistance. The amount of payment assistance granted is the difference between the installment due at the promissory note rate and the amount the applicant must pay based upon income. Borrowers receiving payment assistance must pay the greater of::

- A floor payment calculated as a percentage of adjusted income, less the cost of taxes and insurance; or

- The loan payment amortized at the applicable Equilivant Interest Rate (EIR).

Establishing The Floor Payment

The floor payment is a minimum percentage of adjusted income that the borrower must pay for Principal, Interest, Taxes, and Insurance (PITI).

- Very low-income borrowers must pay a minimum of 22 percent.

- Low-income borrowers with adjusted incomes below 65 percent of the applicable adjusted median income must pay a minimum of 24 percent.

- Low-income borrowers with adjusted incomes between 65 and 80 percent of the applicable adjusted median income must pay a minimum of 26 percent.

Sample Payment Assistance Calculation

A family, with an adjusted income of $19,000, wishes to receive an initial loan with a principal amount of $60,000.

The following financial information is needed to calculate the payment assistance.

Loan Term: 33 years   Note Rate: 7%   Adjusted Median Income: $30,000

$19,000   Adjusted income
63%   Percent of adjusted median ($19,000 / $30,000)
$90   Monthly taxes and insurance

(1) Calculate the Payment at the Note Rate
$389   Payment at the note rate (amortized amount for $60,000 @ 7% for 33 years)

(2) Calculate the Floor Payment for PI*
24% Floor payment percentage for applicant @ 63% of median income
$380 Floor payment for PITI* ($19,000 / 12 months x 0.24)
$290 Floor payment for PI* ($380 - $90 for taxes and insurance)

Calculating The Payment At The Equilivant Interest Rate (EIR)

The EIR is determined by comparing the applicant's adjusted income to the applicable adjusted median income for the area in which the security property is located. The payment at the EIR is calculated by amortizing the loan using the applicant's loan amount, the term of the loan, and the EIR for which the applicant qualifies.
Borrowers who receive leveraged loans are not subject to floor payments and will pay the Equilivant Interest Rate.

(3) Calculate the Payment at the EIR*
4%   EIR* for applicant at 63% of median
$273   Payment at the EIR (amortized amount for $60,000 @ 4% for 33 years)

Equivalent Interest Rate

Use the equivalent interest rate for the income range applicable to the applicant's adjusted income.

Adjusted Median Income Range	Equivalent Interest Rate*
0%-50%	1.0%
50.01%-55%	2.0%
55.01%-60%	3.0%
60.01%-65%	4.0%
65.01%-70%	5.0%
70.01%-75%	6.0%
75.01%-80%	6.5%
80.01%-90%	7.5%
90.01-100%	8.5%
100.01%-110%	9.0%
110.01%-greater	9.5%

* EIR can never exceed the note rate.

(4) Compute Monthly Payment Assistance

$389	Payment at the note rate
-$290	Required payment is the greater of (2) or (3)
$ 99	Monthly payment assistance

* PI = Principal and Interest.
PITI = Principal, Interest, Taxes, and Insurance
EIR = Equivalent Interest Rate

Closing Your Loan

When your loan is approved, you will be required to sign what is called a Mortgage Loan Commitment.. This form will advise you of the amount of the loan, the interest rate, term and any fees due Rural Development as well as conditions or requirements that must be met prior to closing. It is also required that an "Applicant Orientation Guide" be reviewed with you, signed, dated and initialed in numerous areas. No loan can close until this is done. The appendix contains a copy of these forms. Both the Commitment and Orientation Guide should be reviewed in detail and any questions you have should be addressed before closing. You will also be required to choose either an attorney or a settlement agent to handle the closing. You have a right to choose the attorney or agent on your own. However, your Realtor may be able to assist you here. Whether an attorney or Agent is chosen, their role involves the coordination of numerous functions relating to the collection of documents and disbursement of funds required to carry out the terms of the contract. The lender will instruct the settlement agent as to the signing of documents, disbursement of funds etc. Be aware however that title agents can not give legal advise. Other items that you will need to address well in advance of your closing date are as follows:

1. Insure that the survey of the property has been ordered and that it conforms to the boundaries of the property you are buying. The survey will also reveal if there are any "encroachments onto your property or if you are encroaching onto someone else's. You may be able to save some money by finding out who surveyed the property for the sellers and then just have that firm update it.
2. Obtain Homeowner or Hazard Insurance. This should have an effective date the same as your closing date. Shop around and get several estimates as this is a highly competitive business.
3. By all means, do not over look the company that handles your automobile insurance. They may offer a discount by writing more than one type of insurance to the same person. You will need to have a receipt at closing to show that it has been paid in full for an entire year. If your home is located in a flood plain, it will be mandatory that a separate flood policy be in effect also.
4. Notification will need to be made to your Landlord, the Post Office, Utility Companies, your Bank and possibly Schools that you will be moving on a specific date. The local post office has moving kits that are free for the asking that may help you with this.

5. Determine how you will physically move your belongings. Will you be using the services of a professional mover or will you do it yourself with friends. If the later, it will now be a good time to begin gathering boxes.
6. The day of settlement, your realtor should have scheduled a final walk through Inspection. It would even be a good idea to have this as a contingency in the sales contract. It will allow you to see the property and make sure any negotiated items have been taken care of. If there remains deficiencies, all attempts to correct them should be made prior to settlement. In many cases, the lender may not allow closing to be completed.

The closing or settlement date is the date when the sales transaction will be completed. The lender will provide the loan funds, the title or deed will be transferred to you and the sellers will receive their funds and you will receive the keys. During this process, you will be asked to sign many forms. The more familiar you are with these forms the more comfortable you will be the day of closing.

Below is a list with a short explanation of the most common forms that you will see at closing.

1. Promissory Note - This is your written and signed promise to pay back the loan at a given interest rate and over a given time period.
2. Assumption Agreement - this is actually the same as the Promissory Note but is used in the case of assumptions. Usually, if one assumes a loan from an existing borrower, they will also sign a Note that would cover any additional amount of funds needed.
3. The Mortgage - this is the document that actually pledges the property you are purchasing as security for the loan. It can contain many covenants that can include items as to keeping the property maintained, occupied etc.

4. Deed - this is the instrument that actually conveys title from the seller to the buyer. As with the Mortgage, it is recorded in the local Clerk's office. You will however need to decide in which way to take title to the property. There are four ways to hold title:
   - ***Sole Owner*** - you are the only owner.
   - ***Tenancy by the Entirety*** - this is available only to married couples. When one dies the property automatically goes to the surviving spouse. Only creditors of both the husband and wife can attach liens to the property via a judgement.
   - ***Joint Tenancy*** - Available to people other than a husband and wife. When one owner dies, the surviving owner automatically gets the deceased owners share in the property.
   - ***Tenancy in Common*** - the property is owned jointly, but if one owner dies, the deceased owners share goes to his or her heirs rather than the surviving owners.
5. 1st Payment Coupon - This form is sent to settlement just in case that you do not receive your billing statement on time. Although it is not anticipated that you will need this, one will be supplied just in case. Remember, you will now be a homeowner and it will be your responsibility to pay on time even if a billing statement is not received timely. The local office can assist you in this matter.
6. Payment Assistance Agreeement - This is the form that will reduce your payment from the full note rate to the amount that you are eligible for. Since it is assumed that your income will increase annually, this agreement is renewed annually. It will be your responsibility to insure that all required documentation is sent to the Centralized Service Center by the cut off date.
7. Settlement Sheet - Sometimes refereed to as the HUD-1, it itemizes all of the costs associated to the transaction. It will indicate whether the seller or the buyer paid for an item. Signatures of both the buyer and seller are required and you should make sure that a copy is given to you. An example of this form is located in the appendix.

Prior to closing your settlement agent will notify you of the amount of funds you will need for closing. You must make sure that these funds are available and find out in what form they are to be in. (i.e. certified check, cashiers check etc.)

You and Your Home

Now that you are a homeowner you need to take the steps necessary to protect your investment. Remember that your mortgage is due on a specific day of each month. This chapter will provide tips on making the financial adjustment to handle the new responsibilities.

Managing The Financial Responsibilities

It is natural to want to decorate your new home or to furnish those extra rooms you now have. You must remember that your qualifications for repaying the loan were based on your existing debt. If you make new purchases for which you must borrow money, you may have difficulty making your house payments. Your new house payment most likely will be greater than your previous rent payment. In addition, your utility bills are likely to increase. It is important to first make sure you can handle your new monthly housing expenses before you obtain additional debt.

- This is a good time to refer to the budget that you prepared when you were shopping for a new home. Make sure you are now living within the limits of this budget.

- See your note for the first house payment date. If you have not received your payment coupons, you must make the arrangements so that your house payment will be credited properly. There may be a grace period of several days before a late payment fee is charged, but do not consider this to be your due date. The grace period simply allows for mail delays. Call your lender for payment amount and the mailing address if you do not have this information.

- Be aware of what time of the month your other bills are due, and plan your spending accordingly. Compare these due dates with your pay schedule. You need to consider these dates in your monthly budget schedule

- You may wish to contact your electric and gas companies and request to get on their budget plans. This will allow you to pay the same amount each month and will enable you to better budget for the bills.

- Plan ahead for large periodic bills such as car insurance and personal property taxes. You should put aside an amount for these bills each month.

- Put aside $50-$100 each month for maintenance and repairs to your home. You may wish to have these funds in a separate account.

- Now that you're a homeowner, many credit and finance companies will contact you to offer new credit cards and loans. Avoid taking on any new debt for several months until you have adjusted to the expenses related to your new home.

Avoiding Foreclosure

Foreclosure is the legal means that your lender may use to get ownership of your home when you do not make your monthly mortgage payments. When foreclosure takes place, the lender becomes the owner of your home. You must then move into other housing. Under those circumstances, you might find it less expensive to make your mortgage payments than to rent housing.

You have invested a great deal of time and money in obtaining your home. It is most likely the largest financial investment you will ever make. However, you must make your monthly payment on time or you will risk losing your home and the money you have invested through foreclosure.

Per your loan documents, your mortgage payment is due on the set due date each month. By making this obligation a priority, you can avoid costly late charge assessments and maintain a good credit history.

However, the most reliable borrowers sometimes fail to meet every payment on its due date, and it is possible that there is a good reason for the failure, such as a reduction of earnings or illness in the family. If you are having problems making your monthly mortgage payments, you must act **immediately.** If you do, you might avoid losing your home through foreclosure.

If your mortgage is foreclosed, you risk being pursued by your lender for a **deficiency judgment.** A deficiency judgment is a debt obligation, approved and recorded by a court of law, that establishes the fact that even after foreclosure has occurred, you owe additional money on your former mortgage loan. Existence of a deficiency judgment is considered a "bad mark" on a person's credit history and could affect your ability to qualify for credit and/or secure another loan in the future.

What You Can and Should do to Save Your Home

If you have fallen behind in your mortgage payments there are many alternatives and programs available to help you to save your home. Remember, early contact with the servicer is critical in obtaining assistance to reinstate your mortgage loan.

- **Call or write to your lender:** Explain that you know your payments are overdue and you are not sure you will be able to bring them current. The lender may be able to make some special arrangements for a short period of time.

- **Call a housing counseling agency or a non-profit credit counseling agency:** You may obtain information about the location of these agencies from your lender or the housing authority or housing office for your state, county or city. Ask for an appointment to discuss your problem with a housing counselor. To locate a HUD-certified housing counselor, call (800) 569-4287.

- **Reinstate the loan:** Pay off the arrears in order to bring the mortgage current. Try to obtain funds from relatives, profit-sharing plans, the sale of a car or any other asset you may have.

- **Establish a repayment plan:** Both the borrower and lender agree on **a** plan that Provides a schedule of payments to bring the account current. The faster the arrears are paid, the more likely the lender is to accept the plan.

- **Establish a forbearance agreement:** 'The lender agrees to suspend payments for a limited period of time.

Things to remember to Avoid Foreclosure

- Take immediate steps to save your home.
- Call or write to your lender.
- Call a housing counseling agency and arrange an appointment.
- Cooperate with whatever source of help you call.

Your mortgage payment is your most important debt. Making your payments on time will establish a good credit rating, which is necessary when you want to obtain a loan or other credit in the future.

Centralized Servicing Center (CSC)

After a loan closes, it will officially be serviced through our Centralized Servicing Center in St. Louis Missouri. However, the local office that processed your application will still be there to help in circumstances where CSC contact is difficult. Once loan funds are fully disbursed, the loan is transferred to the Centralized Servicing Center. While "servicing" can have connotations of special actions taken to deal with borrowers who are behind in their payments, the bulk of the loans serviced by CSC will be current loans that require normal day-to-day and year-to-year attention. CSC undertakes a wide variety of regular servicing activities as discussed below.

Handling payments and fees. Each month CSC must ensure that each borrower knows how much to pay and when the payment is due. CSC must process the payment and credit it to the proper account. CSC also must assess fees for late payments and payments that do not clear.

Approving borrower actions. During the term of the loan, the borrower may request permission to undertake actions that could affect the value of the security property.

Reviewing escrow, taxes, and insurance. All borrowers are required to pay real estate taxes and maintain acceptable hazard insurance and flood insurance, if applicable. For borrowers with Agency escrow accounts, CSC is responsible for tracking the escrow funds and paying tax and insurance bills on behalf of the borrower. For borrowers who do not have escrow accounts, CSC must be prepared to act when the Agency learns that the borrower is not carrying out these obligations.

Assessing eligibility for payment subsidy. Borrowers who are receiving payment assistance or interest credit subsidies must have their incomes reviewed annually to ensure that they are receiving the appropriate amount of payment subsidy. In addition, borrowers who are not receiving payment subsidy may request it if their financial reviews of a household's income and for providing payment subsidies during the course of the loan.

Refinancing with private credit. Because Agency credit is not intended to replace private credit sources, borrowers who have the means to obtain private financing are required to do so. Every 2 years, the Field Office must review a borrower's ability to refinance with private credit.

Calculating recapture amounts. When borrowers cease to occupy or transfer title to the property, they will be required to repay some or all of the subsidy they received over the life of the loan. CSC must inform the borrower of the amount of subsidy that could be recaptured, and inform the borrower that the amount of subsidy to be repaid could be reduced based on additional information from the borrower.

Deceased borrower. During the term of the loan, CSC may become aware that a borrower is deceased. In these cases, CSC will contact the persons responsible for the deceased borrower's estate. CSC will inform such persons of available servicing options, such as same rates and terms assumption and service the account accordingly. In cases where there was a joint borrower, no servicing actions are necessary.

Taking Care Of Your New Home

Now that you are a homeowner you will be responsible for the many things that may have been handled by a landlord or maintenance staff in the past. This section will help you care for and maintain the value of your home. Keeping your home in good condition will make it more valuable should you want to sell it in the future. Routine maintenance and repairs will also help to save on the cost of major repairs in the future.

Should you run into a maintenance problem, be sure to get at least three estimates before authorizing the work to be done. If the repair work is significant, such as replacing or repairing a roof, get the estimate in writing. Ask friends and neighbors for recommendations of tradespeople to use. If you have trouble with the workmanship or feel you are being cheated, contact the Better Business Bureau for assistance.

Getting to Know Your Home

In order to care for your home you must know as much about its systems as possible. You should have your real estate agent or the seller tour the home with you to point out the important features. If you had a whole house inspection done before buying, the inspector probably pointed out many areas where maintenance would be required. You should know the following:

- Location of fuse or circuit breaker box and main electrical switches
- Location of well and septic system
- Location of main cut-off valve for water and gas
- Location of thermostat for hot-water heater
- Warranties and owner's manuals for appliances
- Instructions for use of all appliances and systems (do not use any appliance if you do not know how to operate it; you may void the warranty if it is used improperly)
- Names and numbers for any contractors or subcontractors who may have installed systems or provided recent repairs (electricians, plumbers);it is important that you keep up with your termite inspections. Many pest-control companies offer one-year policies for $50-$100 that will guarantee that your home stays termite free. If you have this coverage, any problems that crop up will be handled under the terms of your policy. When you go to sell your home, you won't have any surprises in the form of extensive termite work.

Preparing For Maintenance

There are certain items that you will need to handle some basic maintenance of your home.

- Large file folder to keep all home maintenance information (warranties, manuals, contractors' names, plans, etc.)
- Fire extinguisher
- Basic home maintenance book
- Tools:
  - Hammer
  - Adjustable wrench
  - Screws
  - Flashlight
  - Screwdrivers
  - Pliers
  - Saw
  - Nails
  - Plunger

You should establish a home maintenance schedule. This will serve as a reminder and will also ensure certain maintenance items are handled during the proper season. The weather will determine when much maintenance needs to be done.

Listed below are a few home maintenance items that should be done regularly. A local hardware store or building supply store is an excellent resource for tips on home maintenance and repairs. They often will provide instructions for the 'do it yourself" homeowner.

Fall/Winter

- Clean gutters and drain pipes so that leaves won't cause a clog. Visually check drainage to ensure water drains away from the house and foundation.
- Check weather-stripping and caulking around doors and windows. Repair if necessary, Close outside foundation vents.
- Check for cracks in house siding. Fill any cracks with caulking.

- Close storm windows and doors and repair if necessary.
- Remove window air conditioning units or put weatherproof covers on them.
- Inspect chimney for creosote buildup. The chimney should be cleaned periodically (depending on amount of use) to reduce the risk of a chimney fire. Be sure that the damper closes tightly. - Check roof for leaks.
- Have heating system serviced by a professional. Change filters regularly.
- Check attic for adequate insulation.

Spring/Summer

- Check outside of house for cracked or peeling paint.
- Check the roof for any loose or broken shingles.
- Clean gutters.
- Change filter in furnace.
- Check basement for any wet spots or cracks in foundation.
- Open foundation vents.
- Service any window air-conditioning units and replace filters.

If your home is served by a private septic system, you should have the system pumped every two to five years to keep it running properly.

Owning a home is the American dream. You should be proud to be a homeowner.

Rural Housing Service has a goal to provide decent, safe and sanitary housing to eligible applicants. Keeping the home and grounds safe is another responsibility that you will acquire by becoming a homeowner. Below are some areas that should be brought to your attention.

1. In case of a fire, call the fire department before attending to it extinguishment if possible.
2. Keep all smoke detectors properly maintained. If they have batteries, choose the same day each year to replace them with new ones. (New Years Day, your Birthday etc.)
3. If a smoke detector mal functions, do not disconnect it. Have it corrected by a professional.
4. If the kitchen is equipped with ground fault interrupter (GFI) receptacles, keep in mind the are there to protect you. Do not replace them with non- GFI receptacles.
5. Keep your range hoods cleaned. grease will build up over time and if in contact with excessive heat of flame, it may ignite.
6. If you have a clothes dryer, keep the duct clean of lint.
7. Store chemicals and solvents out of the reach of children. Also make sure you can store different chemicals in the same area. there are many combination of common chemicals that will spontaneously combust just by touching each other.
8. Keep a list of emergency phone numbers readily available. (e.g. Poison Control Center. Fire Company, Police, Doctor etc.
9. Keep a fire extinguisher handy. However, do not keep it near a high risk area such as a stove, clothes dryer etc. If these were to catch fire, you need to be able to get to an extinguisher (after notifying the fire department).

Glossary of Mortgage Terms

Abstract (or search) of title: A brief history of the legal ownership of a piece of property.

Acceleration clause: A clause in a deed of trust or mortgage which accelerates or hastens the time when the debt becomes due; for example, most deeds of trust or mortgages contain a provision that the note shall become due immediately upon the sale or transfer of title of land or upon failure to pay an installment of principal or interest.

Amortization: Repayment of mortgage debt with equal periodic payments of both principal and interest, calculated to retire the obligation at the end of a fixed period of time.

Annual mortgage statement: Report to the mortgagor of taxes and interest paid during the year and remaining principal balance.

Applicant: One who applies for a real estate loan (the prospective mortgagor).

Application: A form used to record pertinent information concerning a prospective mortgagor (the borrower). This form is used for evaluating the applicant in terms of his credit standing and history, earning potential, ability to pay the real estate loan and description of the property to be pledged as security.

Appraisal: A formal written estimate of the current market value of a home. It also refers to the process by which a value estimate is obtained.

Borrower: One who receives funds in the form of a loan with the obligation of repaying the loan in full with interest.

Broker: In real estate transactions, the broker usually brings together the buyer, the seller and the mortgage lender to assist them in negotiating a contract.

Buydown mortgage: A mortgage with a below-market interest rate made by a lender in return for an interest rate subsidy in the form of additional discount points paid by the builder, seller or buyer.

Cancellation clause: A clause in a contract or lease whereby either one of the parties is permitted to terminate the contract or lease upon the occurrence of specific conditions set forth in the clause. For example, if the buyers are not certain whether they can secure a mortgage, they would insist on this clause to protect themselves in the event a mortgage is not secured.

Centralized Servicing Center (CSC): This is the branch of Rural Development that handles all of the servicing functions relating to Rural development mortgages.

Certificate of title: A document stating the name of the legal owner of a house, which often furnishes a legal description of the property.

Chain of title: A list as far back as the records show of all transfers of a title with a list of anything that may affect the title, such as easements or encumbrances.

Chattel: Personal property

Closing: The delivery of a deed, financial adjustments, the signing of notes and the disbursement of funds necessary to consummate a sale or loan transaction.

Closing costs: Fees paid to effect the closing of a mortgage, such as origination fee, discount points, title insurance fees, survey fees and attorney's fees.

Cloud on title: A defect in the title, such as an encumbrance, a lien or a claim that may prevent the owner from holding a clear title.

Contract: An agreement between two parties to do or not do certain things for a legal consideration. To be enforceable, contracts must be in writing and must include: a consideration (price and terms), a valid description, place and date of delivery, and all terms and clauses that were agreed upon.

Conventional financing: Mortgage financing that is not insured or guaranteed by a government agency, such as HUD/FHA, VA or GRH.

Credit report: A report to a prospective lender on the credit standing of a prospective borrower, used to aid in the determination of creditworthiness.

Debt-to-income ratio: The ratio, expressed as a percentage, which results when a borrower's monthly payment obligation on long-term debts is divided by his or her gross monthly income.

Deed of trust: A type of security instrument in which the borrower conveys title to real property to a third party (trustee) to be held in trust as security for the lender with the condition that the trustee shall re-convey the title upon the payment of the debt and, conversely, will sell the land and pay the debt in the event of a default by the borrower.

Deficiency judgment: A judgment against a borrower if the sale of pledged property at foreclosure does not bring in enough to pay the balance of the amount.

Delinquency: Failure of a borrower to make timely payments under a loan agreement.

Deposit: Amount of money given to bind sale of real estate or ensure payment; advance of funds in the processing of a loan.

Down payment: The difference between the sales price of real estate and the mortgage amount.

Earnest money: The deposit money given to the sellers by the buyers to show that they are serious about buying the house. This money is applied to the down payment if the contract is accepted.

Escrow agreement: The provision that states insurance and real estate taxes to be paid by the lender. As the buyer, you generally pay 1/12 of the annual insurance premium and taxes with your monthly payment. The lender holds these monies in trust and pays the sums as they become due.

Federal Housing Administration (FHA): A federal agency within the Department of Housing and Urban Development that provides mortgage insurance for residential mortgages and sets standards for construction and underwriting.

Foreclosure: A legal procedure in which a mortgaged property is sold to pay the outstanding debt in case of default.

Good faith estimate: An estimate of the closing costs given to the borrower before the closing.

Guaranteed Loan: A loan made by a lender but repayment is guaranteed by anoither Agency. (Rural Development,HUD, VA)

Gross monthly income: The total amount the borrower earns per month before any expenses are deducted.

Homeowner's insurance: A policy insuring against multiple perils, commonly called a package policy, and made available to owners of private dwellings. There are wide variations in the coverage of such policies, which generally insure the dwelling and its contents.

Joint tenancy: The ownership of real estate for life by two or more persons, each having an undivided interest. If one party dies, the survivors automatically receive his or her interest in the property.

Leveraged loan: A loan or grant to an Agency borrower from a non-Agency source for the same property closed simultaneously with an Agency loan.

Market value: The highest price that a buyer and the lowest price that a seller will accept, neither one being compelled to buy or sell.

Maturity date: The date on which a mortgage indebtedness is completed if paid in accordance with the terms of the note.

Mortgage discount points: Points are a one-time charge made by a lending institution. A point is equal to 1 percent of the loan amount.

Mortgage insurance: A policy that allows mortgage lenders to recover part of their financial losses if a borrower defaults on a loan.

Origination fee: The lender's fee charged to a borrower to prepare documents, make credit checks, inspect and sometimes appraise a property. Usually this is equal to 1 percent of the loan amount.

PITI ratio: The amount paid by the borrower for principal, interest, taxes, and insurance, divided by repayment income.

Prepayment: The buyer may be permitted to pay off the mortgage before maturity without penalty. At times, buyers may decide to refinance a lower rates or to fully pay the mortgage before it is due.

Prepaid expenses: The initial deposit at the time of closing for taxes and hazard insurance and the subsequent monthly deposits made to the lender for that purpose.

Principal: The original balance of money lent, excluding interest. Also, the remaining balance of a loan, excluding interest.

Private mortgage insurance: Insurance written by a private company protecting the mortgage lender against financial loss occasioned by a borrower defaulting on the mortgage.

Realtor: A person licensed to sell and/or lease real property, acting as an agent for others, and who is a member of a local real estate board affiliated with the National Association of Realtors. Realtor is a registered trademark of the NAR.

Real Estate Settlement Procedures Act (RESPA): A federal statute and regulation published by HUD governing real estate lending practices and disclosures. Its main features pertain to the provision of a good faith estimate of loan settlement costs and the provision of the HUD settlement booklet within three days of making loan application.

Recapture: An amount of subsidy to be repaid by the borrower upon disposition or non-occupancy of the property.

USDA Rural Development: This agency provides financing to farmers and other qualified borrowers who are unable to obtain loans elsewhere.

Sales contract: A written agreement between the buyer and the seller stating the terms and conditions of a sale or exchange of property.

Settlement: The closing of a mortgage loan.

Survey. A measurement of land, prepared by a registered land surveyor, showing the location of the land with reference to known points, its dimensions, and the location and dimensions of any improvements.

Title: Written evidence of the right to or ownership in property. In the case **of** real estate, the documentary evidence of ownership is the title deed that specifies in whom the legal estate is vested and the history of ownership and transfers. Title may be acquired through purchase, inheritance, gift or through foreclosure of a mortgage.

Title insurance: A policy, usually issued by a title insurance company, which insures a homebuyer against errors in the title search. The cost of the policy is usually a function of the value of the property and is often borne by the purchaser and/or seller.

Title search: An examination of public records, laws and court decisions to ensure that no one except the seller has a valid claim to the property, and to disclose past and current facts regarding ownership of the subject property.

Total debt ratio (TD): The amount paid by the borrower for principal, interest, taxes, and insurance and any recurring monthly debt, divided by repayment income.

Truth-In-Lending Act: A federal law requiring disclosure of the annual percentage rate to homebuyers shortly after they apply for the loan.

Underwriting: The decision whether to make a loan to a potential homebuyer based on credit, employment, assets and other factors " and the matching of this risk to an appropriate rate and term or loan amount.

VA loans: A long-term, low- or no-down payment loan guaranteed by the Department of Veterans Affairs. Restricted to individuals qualified by military service or other entitlement.

Verification of Deposit: A form that requests and secures verifications of amounts on deposit at financial institutions. When a depository institution is also the applicant's creditor, the VOD verifies the obligation.

Verification of Employment: A form that requests and secures documentation of a mortgage applicant's work history and/or occupation to assist in the lender's credit investigation.

Appendix A

Forms and Certifications

FORMS

Form RD 410-4, Uniform Residential Loan Application
Form RD 440-58, Estimate of Settlement Costs
Form RD 1910-5, Request for Verification of Employment
Form RD 1940-16, Promissory Note
Form RD 1940-41, Truth in Lending Statement
Form RD 1940-59, Settlement Statement
Form FHA 1944-3, Budget
Form FmHA 1944-4, Certification of Disability or Handicap
Form RD 1944-14, Payment Assistance Agreement
Form RD 1944-59, Certificate of Eligibility
Form RD 1944-60, Landlord's Verification
Form RD 1944-62, Request for Verification of Deposit
Form 3550-1, Authorization to Release
Form RD 3550-2, Request for Verification of Gift/Gift Letter
Form RD 3550-7, Mortgage Loan Commitment
Form RHS 3550-9, Initial Escrow Account Disclosure Statement
Form 3550-12, Subsidy Repayment Agreement
Form RD 3550-14NJ, Mortgage for New Jersey
Form 3550-22, Assumption Agreement, Single Family Housing
Form RD 3550-23, Applicant Orientation Guide
Form 3550-26, Substitute Payment Coupon
Standard Form 5510, Authorization Agreement for Preauthorized Payments

CERTIFICATIONS

Verification of Pensions and Annuities
Verification of Student Income and Expenses
Verification of Medical Expenses
Verification of Social Security Benefits
Verification of Public Assistance
Verification of Child/Dependent Care
Verification of Unemployment Benefits
Verification of Business Expenses
Verification of Support Payments

Appendix B

Miscellaneous Information

Ten Basic rules of Money Management

Tip Sheet for Home Buyers

Keys to successful budgeting

Are you an Overspender?

Ten Basic Rules of Money Management

1. Plan

Plan for the future, especially major purchases and occasional expenses like car insurance or personal property taxes.

2. Set financial goals

Determine short-, mid- and long-range goals.

3. Know your financial situation

Compare outgoing to monthly net income. Be aware of your total indebtedness.

4. Develop a realistic spending plan

Evaluate your plan by comparing actual expenses with planned expenses.

5. Don't allow expenses to exceed income

Don't charge more every month than you are repaying to your creditors. Avoid only paying the minimum on charge accounts.

6. Save

Save for expenses which occur infrequently, such as car and home maintenance. Save five percent to 10 percent of your net income. Accumulate an emergency fund.

7. Pay your bills on time

Maintain a good credit rating. If unable to pay, contact your creditor and make arrangements.

8. Know the difference between necessity and desire

Money should be spent for "wants" only after basic needs have been met.

9. Use credit wisely

Use credit for safety, convenience and planned purchases. Don't allow credit payments to exceed 20 percent of your net income. Don't borrower from one creditor to pay another (unless you are lowering the interest rate).

10. Keep daily log of expenditures

Be aware of where your money goes.

Tip Sheet For Home Buying

- Never buy more than you think you can afford. Decide what you feel comfortable paying each month and then let that determine the sales price you can afford.
- Pay yourself first. Make sure savings is a part of every budget plan.
- If the new house payment is going to be more than you currently pay, try paying it for three to four months before buying. Pay your current rent and put the extra in a savings account on the first of each month. If you don't have to touch the money, then you are able to make that much of a mortgage payment.
- Attend "How To" workshops at your local hardware store and learn how to repair things yourself.
- If you think you have found the house, visit it at different times of the day so you get a feel for what the neighborhood is like.
- Learn about real estate agents who are buyer's brokers and how they can help first-time buyers.
- Be smart; educate yourself before making the biggest purchase of your life.
- Check your credit history once a year for accuracy.
- If you have a home inspection done, go with the inspector and learn about the systems in your new house.
- If you can't make you monthly mortgage payment, call you servicer first; they have ways to help you get through the financial crisis.
- Try and avoid any major purchases for six months after purchasing to get used to the expense of the new house.
- Protect your investment by doing scheduled maintenance on your home each spring and fall.
- If money for closing is tight, schedule your closing date closer to the end of the month for the lowest cost to close.

Keys to Successful Budgeting

1. Basic decisions should be made which involve the entire family concerning how the money will be spent, who will actually pay the bills, and who will maintain the budget.

2. Develop your own spending plan-suited to your family's income, needs, goals. Do not try to follow others.

3. Decide what your family's most important goals are. Your money should be spent for those things which mean most to your family's welfare and happiness.

4. Plan ahead for the whole year ... only in this way can you have a true picture of where you are going and how well you are following your financial plan.

5. Include all your income and all your expenses. Plan according to what your income is now not what you expect it to be.

6. Keep good records but make the procedure as simple as possible.

7. It is important that you track and record most every penny spent in order to control spending habits.

8. As a homeowner, it is extremely important that you include reserve accounts for home maintenance in your budget plan.

9. Pay yourself first by developing a personal savings plan. Try to save 10% of your income. If you cannot manage 10% right away, try to save a smaller amount, but do so regularly.

10. If at the beginning, you fail at times to stick to your budget plan, do not give up; stay with it. You will succeed if you are determined.

11. Review your plan once a month. Analyze expenditures and alter the plan if you feel adjustments would improve the workability of your budget.

Are You an Overspender?

If you feel your finances control you instead of you controlling your finances, ask yourself the following questions. If you answer "yes" to the majority of these questions, you may want to consider altering your current spending habits.

1. Are you still paying bills from purchases made a year ago?
2. Do you use credit cards even when the purchase is small and you have the cash?
3. Is your checking account frequently overdrawn?
4. Do you race to the bank to deposit your paycheck before the checks come in?
5. Have you stopped having, or adding to, a savings account?
6. Do you sometimes wonder why you made a particular purchase?
7. Do you feel "out of control" when faced with a buying decision?
8. Do you "juggle" payments to keep creditors satisfied?
9. Are your credit accounts usually at the maximum credit line?
10. Do you ever feel free to spend more after clearing up a debt?
11. Are you surprised at how much interest you pay creditors annually?
12. Do you hope that your children will handle money better than you do?
13. Would a small reduction in your income or an unusual expense force you to neglect your obligation to creditors?

Para más información, por favor comuníquese con la oficina más cercana deUSDA Desarrollo Rural; o puede comunicarse con la Oficina Estatal al (856)787-7730. O escriba a:

USDA Desarrollo Rural
5th Floor North, Suite 500
8000 Midlantic Drive
Mt. Laurel, NJ 08054

La información también está disponible en la computadora:
http://www.rurdev.usda.gov/nj

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Para radicar una querella, escriba a: USDA, Director, Office of Civil Rights, Room 326-W, Whitten Building, 14th and Independence., SW Washington, DC 20250-9410 o llame al (202)720-5964 (voz y TDD). USDA es un proveedor y patrono con igualdad de oportunidades de empleo.

For More information, please contact your nearest USDA Rural Development Office; or you may contact the State Office at (856) 787-7730. Or Write to:

USDA Rural Development
5th Floor North, Suite 500
8000 Midlantic Drive
Mt. Laurel, NJ 08054

Information is also available at our web site at
http://www.rurdev.usda.gov/nj

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To file a complaint of discrimination, write: USDA, Director, Office of Civil Rights, Room 326-W, Whitten Building, 14th and Independence Ave., SW, Washington, DC 20250-9410 or call (202) 720-5964 (voice & TDD). USDA is an equal opportunity provider and employer.